

Report
of the
Examination of
MGIC Surety Corporation
Milwaukee, Wisconsin
As of December 31, 1997

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION	3
III. MANAGEMENT AND CONTROL	4
IV. AFFILIATED COMPANIES	6
V. REINSURANCE	15
VI. FINANCIAL DATA	16
VII. SUMMARY OF EXAMINATION RESULTS	26
VIII. CONCLUSION	27
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS	28
X. ACKNOWLEDGMENT	29

February 26, 1999

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, WI 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

MGIC SURETY CORPORATION
Milwaukee, WI

and this report is respectfully submitted.

I. INTRODUCTION

The company was organized in 1997 and has not been previously examined. The
current examination covered the period ending December 31, 1997, and included a review of
such 1998 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's
operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

MGIC Surety Corporation (Surety) was organized under the laws of Wisconsin on April 30, 1997, and commenced business on May 21, 1997. The company is licensed in Wisconsin only, to write the surety line of business. As of December 31, 1997, Surety had not undertaken any liability for insurance risks, and did not have any insurance in force.

Surety is a wholly owned subsidiary of MGIC. The company's initial capitalization, provided by MGIC on May 1, 1997, consisted of \$2,000,000 of paid-in capital, \$3,000,000 of paid-in surplus, and 100% of the common stock of MGIC Assurance Corporation, which at the date of transfer had the statement value of \$14,777,942.

As of December 31, 1997, Surety's statutory financial statement reported admitted assets of \$18,943,446, total liabilities of \$4,000, and policyholder's surplus of \$18,939,446. Operations for 1997 produced net income of \$188,970. The company did not write any premium during 1997.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. All directors are elected annually to serve a one-year term. Members of the company's board of directors may also be members of other boards of directors in the holding company group. As officers of the company, the board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Curt S. Culver Waukesha, WI	President and CEO MGIC Investment Corp.	1999
William H. Lacy West Bend, WI	Chairman MGIC Investment Corp.	1999
Jeffrey H. Lane Glendale, WI	Senior Vice President, General Counsel, and Secretary MGIC Investment Corp.	1999
J. Michael Lauer Wauwatosa, WI	Executive Vice President and CFO MGIC Investment Corp.	1999
James A. McGinnis Hales Corners, WI	Vice President – Investor Relations Mortgage Guaranty Insurance Corp.	1999
Lou T. Zellner Elm Grove, WI	Executive Vice President – Corporate Planning Mortgage Guaranty Insurance Corp.	1999
Joseph J. Ziino, Jr. Brookfield, WI	Senior Vice President, Associate General Counsel, and Assistant Secretary MGIC Investment Corporation	1999

Officers of the Company

Officers are appointed at the board of directors' annual meeting. The officers appointed by the board of directors and serving at the time of this examination are listed below. All officers are employed by Mortgage Guaranty Insurance Corporation, and a portion of their compensation is allocated to MGIC Surety Corporation through a servicing agreement.

Name	Office
William H. Lacy	President and CEO
Curt S. Culver	Executive Vice President
J. Michael Lauer	Executive Vice President and Chief Financial Officer
Lawrence J. Pierzchalski	Executive Vice President – Risk Management
Gordon H. Steinbach	Executive Vice President – Credit Policy
Jeffrey H. Lane	Senior Vice President, General Counsel, and Secretary
Joseph J. Ziino, Jr.	Vice President, Assistant General Counsel, and Assistant Secretary
Lou T. Zellner	Senior Vice President – Corporate Planning

Committees of the Board

The company had no committees at the time of the examination.

IV. AFFILIATED COMPANIES

MGIC Surety Corporation (Surety) is a member of a holding company system. The ultimate parent of the holding company system is MGIC Investment Corporation. MGIC Investment Corporation is a publicly traded corporation listed on the New York Stock Exchange. As of December 31, 1997, the holding company's largest shareholder was The Northwestern Mutual Life Insurance Company (NML), which held an 18% ownership interest.

MGIC Investment Corporation and each of its subsidiaries qualifying under the Internal Revenue Code join in filing a consolidated federal income tax return, pursuant to an MGIC group affiliated tax-sharing agreement. Tax benefit or liability attributed to each respective affiliate under the consolidated income tax return is based on the amount of benefit or liability that would otherwise have applied if the respective affiliate had filed a separate United States Corporation Income Tax Return. For purposes of income tax-sharing, each subsidiary computes its own income on a separate company basis, and each computes its own taxes by applying on a separate company basis the provisions of the Internal Revenue Code.

MGIC provides employee personnel, management services, and administrative services to various companies in the MGIC group through an intercompany services allocation agreement. MGIC's costs for services provided to each affiliate are allocated by MGIC to the respective affiliate.

The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the holding company affiliates of MGIC Surety Corporation follows the organizational chart.

**Organizational Chart
As of December 31, 1997**

MGIC Investment Corporation
 Mortgage Guaranty Reinsurance Corporation
 (1) Mortgage Guaranty Insurance Corporation
 MGIC Reinsurance Corporation of Wisconsin
 MGIC Mortgage Insurance Corporation
 MGIC Credit Assurance Corporation
 MGIC Surety Corporation
 MGIC Assurance Corporation
 MGIC Real Estate Servicing Corporation
 Credit-Based Asset Servicing & Securitization LLC
 MGIC Reinsurance Corporation
 MGIC Mortgage Reinsurance Corporation
 MGIC Residential Reinsurance Corporation
 MGIC Mortgage Marketing Corporation
 MGIC Investor Services Corporation
 MGIC Insurance Services Corporation
 MGIC Mortgage Securities Corporation

(1) Mortgage Guaranty Reinsurance Corporation owns 41,085 shares of the outstanding Class A common capital stock of Mortgage Guaranty Insurance Corporation (MGIC). MGIC holds the remaining 58,915 shares of the Class A capital stock issue as treasury stock. MGIC Investment Corporation owns 100% of the outstanding shares of Class B common capital stock of MGIC.

MGIC Investment Corporation (MTG)

MGIC Investment Corporation (MTG) was incorporated under the laws of Wisconsin on June 22, 1984, as Management Financing Corporation. The holding company's name was changed to MGIC Investment Corporation effective March 1, 1985. The holding company was formed to consolidate ownership of, and to provide capitalization for, the mortgage guaranty insurance and related business operations of the MGIC Group. Initial funding of MTG was provided by NML and by senior executive officers of MGIC. An initial public offering of the common stock of MTG was completed in August of 1991, and a second offering was completed in June of 1992.

At year-end 1997 NML held an 18.4% ownership interest in MTG, officers and directors of MTG held 1.3% ownership interest, and other investors held the remaining 80.3% of ownership. In August 1998 NML sold 43% of its then existing holdings of MTG stock, reducing its present ownership interest in the holding company to approximately 10.5%.

MTG and its subsidiary companies are principally engaged in the mortgage guaranty insurance business. The group provides residential mortgage insurance and related insurance

products to lenders, and through its noninsurance operations provides services to the mortgage finance industry, including contract underwriting, claim administration, and portfolio analysis.

As of December 31, 1997, MTG's audited financial statement reported assets of \$2,617,687,000, liabilities of \$1,130,905,000, and total shareholder's equity of \$1,486,782,000. Operations for 1997 produced net income of \$323,750,000.

Mortgage Guaranty Reinsurance Corporation (MGRC)

MGRC was incorporated under the laws of Wisconsin on September 30, 1985. The company was organized for the purpose of reinsuring a 20% retrocession of mortgage guaranty risks in force on September 30, 1985, issued by Wisconsin Mortgage Assurance Corporation (WMAC) prior to March 1, 1985. Initial capitalization of MGRC included the Class A common stock of Mortgage Guaranty Insurance Corporation, contributed by MGIC Investment Corporation. MGIC assigned to MGRC the rights and responsibilities of MGIC under its WMAC assumption reinsurance agreement, the assignment effective September 30, 1985. MGIC administers the business on behalf of MGRC, including collection of premiums and the payment of claims, pursuant to an intercompany reinsurance management agreement between MGIC and MGRC.

As of December 31, 1997, MGRC's statutory financial statement reported admitted assets of \$327,852,613, total liabilities of \$21,519,190, and policyholder's surplus of \$306,333,423. Operations for 1997 produced net income of \$35,385,538.

Mortgage Guaranty Insurance Corporation (MGIC)

MGIC was incorporated under the laws of Wisconsin on February 20, 1979, as Liberty Mortgage Insurance Company. The company was originally owned by Verex Corporation, and was acquired by MGIC Investment Corporation in November 1984. The company's corporate name was changed to the one presently used on March 1, 1985, when the company began writing new business. The Class A common stock of MGIC was contributed to the capital of MGRC on September 30, 1985.

MGIC issues residential mortgage guaranty insurance in 50 states, the District of Columbia, and Puerto Rico. MGIC serves as the lead company in the MGIC group, providing

administrative and managerial services within the group, accumulating costs, and allocating expenses under affiliated services agreements. MGIC also cedes reinsurance to other members of the group. Run-off business assumed by MGIC from Wisconsin Mortgage Assurance Corporation is assigned to MGRC. MGIC insurance business requiring an AAA-rated insurer is ceded to MGIC Mortgage Insurance Corporation. Business is ceded to other MGIC affiliate insurers for the purpose of meeting the statutory restrictions in some states that limit mortgage guaranty retention for any one risk to not more than 25% of the total risk.

As of December 31, 1997, MGIC's statutory financial statement reported admitted assets of \$2,674,174,905, total liabilities of \$2,341,304,242, and policyholder's surplus of \$322,870,663. Operations for 1997 produced net income of \$111,673,740.

MGIC Reinsurance Corporation of Wisconsin (MRCW)

MRCW was incorporated under the laws of Wisconsin on February 15, 1996, and commenced operations on April 1, 1996. The company was established to provide reinsurance to MGIC for its primary and pool mortgage loan policy liabilities in excess of 25% of the mortgage loan amounts, for policies written in 44 states. The company assumes all of its business from MGIC, and does not cede any of its business.

As of December 31, 1997, MRCW's statutory financial statement reported admitted assets of \$119,589,227, total liabilities of \$35,865,442, and policyholder's surplus of \$83,723,785. Operations for 1997 produced a net loss of \$2,701,384. In 1997 MGIC contributed capital of \$35,000,000 to the company to support MRCW's increased reinsurance assumption activity.

MGIC Mortgage Insurance Corporation (MMIC)

MMIC was incorporated under the laws of Wisconsin on April 30, 1987. The company was established to be an insurer that maintains the rating AAA by Standard and Poor's Corporation, to provide the MGIC Group with the facility to write mortgage guaranty insurance on loans that require the insurer to be rated AAA. The company assumes coverages issued by MGIC, and does not write any direct insurance business.

Prior to 1996, MMIC was a wholly owned subsidiary of MGIC. In 1996 MGIC contributed 100% of the common stock of MMIC to MGIC Reinsurance Corporation of Wisconsin.

As of December 31, 1997, MMIC's statutory financial statement reported admitted assets of \$61,871,465, total liabilities of \$15,033,563, and policyholder's surplus of \$46,837,902. Operations for 1997 produced net income of \$2,152,386.

MGIC Credit Assurance Corporation (MCAC)

MCAC was organized under the laws of Wisconsin on April 30, 1997, and commenced business on May 21, 1997. The company was established to write mortgage loan guaranty insurance to lenders in certain states on second mortgages and home equity lines of credit. As of December 31, 1997, MCAC had not undertaken any liability for insurance risks, and did not have any insurance in force.

MCAC is a wholly owned subsidiary of MGIC. The company's initial capitalization, provided in 1997 by MGIC, consisted of \$2,000,000 of paid-in capital and \$3,000,000 of paid-in surplus.

As of December 31, 1997, MCAC's statutory financial statement reported admitted assets of \$5,175,577, total liabilities of \$17,000, and policyholder's surplus of \$5,158,577. Operations for 1997 produced net income of \$158,577.

MGIC Assurance Corporation (MAC)

MAC was organized under the laws of Oklahoma in 1937 as Insurers Indemnity and Insurance Company. The company was acquired by MGIC in 1995, and adopted its current corporate name and redomesticated to Wisconsin effective November 18, 1996.

During 1997 the company began writing insurance on second mortgages and home equity lines of credit, and had direct business in two states. At year-end 1997 the company was licensed in 23 states as a credit insurer, and in an additional 15 states in other lines of insurance. Wisconsin regulations require that a mortgage guaranty or junior lien insurer be a monoline company, or otherwise establish a segregated account for the capitalization of mortgage

guaranty or junior lien business. In 1997 the company established a segregated account through which it conducts its junior lien insurance business.

The company is a wholly owned subsidiary of MGIC Surety Corporation, with 100% of its common stock having been contributed by MGIC to Surety in 1997. During 1997 MGIC contributed paid-in capital of \$5,000,000 to the segregated account of MGIC Assurance Corporation to capitalize the company's mortgage guaranty operations.

As of December 31, 1997, MAC's statutory financial statement reported admitted assets of \$12,530,483, total liabilities of \$571,899, and policyholder's surplus of \$11,958,585. Operations for 1997 produced net income of \$307,514.

MGIC Real Estate Servicing Corporation (RESC)

RESC was formed in the 1980s for the purpose of acquiring, managing, and disposing of real estate acquired through the claim settlement process (REO) generated from the WMAC run-off book of business. The corporation was dissolved effective December 15, 1998, due to decreased WMAC related property acquisition activity, as policies in the WMAC block expire and the size of the run-off business block decreases.

The company serviced REO properties acquired through the settlement of WMAC claims, particularly pool coverage claims where the underlying mortgage loans had a high coupon rate. The company served as a credit facility for financing the acquisition of properties in settlement of claims. Reinsurers participated in the financing of the company as an element of the reinsurers' loss mitigation effort, providing a portion of the total credit facility required to support the REO inventory.

As of December 31, 1997, RESC's unaudited financial statement reported total assets of \$148,673, total liabilities of \$124,328, and total stockholders equity of \$24,345. Operations for 1997 produced a net loss of \$650.

Credit-Based Asset Servicing & Securitization LLC (C-Bass)

C-Bass is a joint venture in which MGIC has a 48.2% ownership interest. The venture was formed in July 1996 to engage in the acquisition and resolution of delinquent single family mortgage loans. The company purchases and sells mortgage-backed securities, and

issues mortgage-backed debt securities collateralized by mortgage loans and mortgage securities. The MGIC group does not have material participation in subperforming loans of the type owned by C-Bass.

As of December 31, 1997, C-Bass' audited financial statement reported total assets of \$224,149,940, total liabilities of \$163,636,879, and member's equity of \$60,513,061. Operations for 1997 produced net income of \$15,204,392.

MGIC Reinsurance Corporation (MGIC Re)

MGIC Re was incorporated under the laws of Wisconsin on February 21, 1985, and commenced business on March 1, 1985. The company was organized to provide the affiliated company MGIC with excess of loss reinsurance coverage. MGIC Re provides reinsurance to MGIC on primary and pool mortgage guaranty coverage in excess of 25% of the loan amount, on business written in 6 states. The company's reinsurance on any loan is limited to a maximum of 25% of the loan amount. The company also provides reinsurance on up to 25% coverage for pool insurance in those states. The company assumes all of its business from MGIC, and cedes to a group of foreign reinsurers to increase capacity.

As of December 31, 1997, MGIC Re's statutory financial statement reported admitted assets of \$55,307,666, total liabilities of \$24,235,385, and policyholder's surplus of \$31,072,281. Operations for 1997 produced net income of \$1,143,835.

MGIC Mortgage Reinsurance Corporation (MMRC)

MMRC was organized under the laws of Wisconsin on July 1, 1996, and commenced business activity on that date. MMRC was organized to provide the affiliated company MGIC with excess of loss reinsurance coverage. MMRC provides reinsurance to MGIC on mortgage guaranty pool coverage in excess of 25% of the loan amount on business written in 6 states. The company assumes all of its business from MGIC, and does not cede any of its business.

As of December 31, 1997, MMRC's statutory financial statement reported admitted assets of \$10,816,761, total liabilities of \$66,802, and policyholder's surplus of \$10,749,959. Operations for 1997 produced net income of \$498,422.

MGIC Residential Reinsurance Corporation (MRRC)

MRRC was organized under the laws of Wisconsin on July 1, 1996, and commenced business on that date. MRRC was organized to provide the affiliated company MGIC with excess of loss reinsurance coverage. MGIC Residential Reinsurance Corporation provides reinsurance to MGIC on mortgage guaranty coverage in excess of 25% of the loan-to-value amount on business written in 6 states. The company's reinsurance on any loan is limited to a maximum of 25% of the loan- amount. The company assumes all of its business from MGIC, and does not cede any of its business.

As of December 31, 1997, MRRC's statutory financial statement reported admitted assets of \$10,784,995, total liabilities of \$66,975, and policyholder's surplus of \$10,718,020. Operations for 1997 produced net income of \$484,766.

MGIC Mortgage Marketing Corporation (MMC)

MMC was incorporated under the laws of Wisconsin on October 1, 1984, as MFC Marketing Corporation. The company's name was changed to MGIC Mortgage Marketing Corporation effective March 1, 1985. MMC purchases mortgage loans, assembles those loans into pools, and markets the pooled loans by issuance of mortgage pass-through certificates. MMC does not take an investment position in the pass-through certificates.

As of December 31, 1997, MMC's audited financial statement reported total assets of \$1,771,000, total liabilities of \$219,000, and total shareholder's equity of \$1,552,000. Operations for 1997 produced a net loss of \$68,000.

MGIC Investor Services Corporation (MISC)

MISC was incorporated under the laws of Wisconsin as MFC Services Corporation. The company's name was changed to the one presently used on March 1, 1985, when MISC began its principal business activities. MISC provides business services for the home mortgage finance industry, including portfolio analysis, due-diligence underwriting, secondary marketing of related assets, contract underwriting, and consulting. MISC also provides claims administration services and premium reconciliation services for two U.S. government agencies.

As of December 31, 1997, MISC's audited financial statement reported total assets of \$15,190,000, total liabilities of \$3,448,000, and total shareholder's equity of \$11,742,000. Operations for 1997 produced a net loss of \$780,000.

MGIC Insurance Services Corporation (INS)

INS was incorporated under the laws of Wisconsin on February 26, 1985. The company commenced business on April 1, 1985. INS acts as a broker for insurance coverages offered to financial institutions, and manages surety, special hazard, and mortgage-related bonds and policies issued by Continental Casualty Company (including existing bonds and policies of WMBIC Indemnity Corporation assumed by Continental Casualty Company) including issuance of coverage, premium collection, and claims.

As of December 31, 1997, INS' unaudited financial statement reported total assets of \$287,355, total liabilities of \$65,103, and total stockholder equity of \$222,251. Operations for 1997 produced net income of \$170,498.

MGIC Mortgage Securities Corporation (MSC)

MSC was incorporated under the laws of Wisconsin on October 1, 1984, as MFC Securities Corporation. The company's name was changed to the one presently used effective March 1, 1985, when the company commenced its principal business activities. MSC is a registered broker and dealer in securities under the Securities Exchange Act of 1934. MSC functions as a broker/dealer in the purchase and sale of mortgage-backed securities including mortgage pass-through securities. The company's clients are financial institutions such as mortgage lenders and securities dealers.

As of December 31, 1997, MSC's audited financial statement reported total assets of \$424,000, total liabilities of \$14,000, and total shareholder's equity of \$410,000. Operations for 1997 produced net income of \$2,000.

V. REINSURANCE

As of the date of fieldwork for the current examination, MGIC Surety Corporation had not engaged in any underwriting activity nor undertaken any insurance risk, and the company was not party to any reinsurance agreements or arrangements.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 1997, statutory annual statement to the Commissioner of Insurance. Examination adjustments to account balances made as a result of examination findings are noted on the page captioned "Reconciliation of Surplus per Examination." Also included in the Financial Data section are schedules which reflect the growth of the company, comment on any exceptional NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the company's Property and Casualty Compulsory and Security Surplus Calculation as of December 31, 1997.

MGIC Surety Corporation
Assets
As of December 31, 1997

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	\$ 3,889,720	\$ 0	\$0	\$ 3,889,720
Stocks:				
Common stocks	14,717,132	272,036	0	14,989,168
Cash	560	0	0	560
Interest, dividends, and real estate income due and accrued	<u>0</u>	<u>63,998</u>	<u>0</u>	<u>63,998</u>
Total Assets	<u>\$18,607,412</u>	<u>\$336,034</u>	<u>\$0</u>	<u>\$18,943,446</u>

MGIC Surety Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 1997

Federal and foreign income taxes (excluding deferred taxes)	<u>\$ 4,000</u>
Total Liabilities	4,000
Common capital stock	2,000,000
Gross paid-in and contributed surplus	17,777,942
Unassigned funds (surplus)	<u>(838,496)</u>
Surplus as Regards Policyholders	<u>18,939,446</u>
Total Liabilities, Surplus, and Other Funds	<u>\$18,943,446</u>

**MGIC Surety Corporation
Summary of Operations
For the Year 1997**

Underwriting Income

Premiums earned	\$ 0
-----------------	------

Deductions

Other underwriting expenses incurred	<u>982</u>
Total underwriting deductions	<u>982</u>

Net underwriting gain or loss	(982)
-------------------------------	-------

Investment Income

Net investment income earned	<u>206,952</u>
Net investment gain or loss	206,952

Other Income

Total other income	<u>0</u>
--------------------	----------

Net income before dividends to policyholders and before federal and foreign income taxes	<u>205,970</u>
---	----------------

Net income after dividends to policyholders but before federal and foreign income taxes	205,970
Federal and foreign income taxes incurred	<u>17,000</u>

Net Income	<u>\$188,970</u>
------------	------------------

MGIC Surety Corporation
Cash Flow
As of December 31, 1997

Underwriting expenses paid	<u>\$ 982</u>	
Cash from underwriting		\$ (982)
Investment income (net of investment expense)		138,351
Other income (expenses):		
Total other income	0	
Deduct:		
Federal income taxes paid		<u>13,000</u>
Net cash from operations		\$ 124,369
Proceeds from investments sold, matured, or repaid:		
Stocks	<u>4,935,000</u>	
Total investment proceeds		4,935,000
Cost of investments acquired (long-term only):		
Bonds	3,885,117	
Stocks	<u>20,951,634</u>	
Total investments acquired		<u>24,836,751</u>
Net cash from investments		(19,901,751)
Cash provided from financing and miscellaneous sources:		
Surplus notes, capital and surplus paid in	<u>19,777,942</u>	
Total		19,777,942
Cash applied for financing and miscellaneous uses:		
Total		<u>0</u>
Net cash from financing and miscellaneous sources		<u>19,777,942</u>
Net change in cash and short-term investments		560
Reconciliation		
Cash and short-term investments,		
December 31, 1996		<u>0</u>
Cash and short-term investments,		
December 31, 1997		<u>\$ 560</u>

MGIC Surety Corporation
Compulsory and Security Surplus Calculation
December 31, 1997

Assets	\$18,943,446	
Less investment in insurance subsidiaries not in excess of subsidiaries' policyholders' position	3,373,226	
Less liabilities	<u>4,000</u>	
Adjusted surplus		\$15,566,041
Total annual premium	0	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory surplus excess (or deficit)		<u>\$13,566,041</u>
Adjusted surplus		\$15,566,041
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)		<u>2,800,000</u>
Security surplus excess (or deficit)		<u>\$12,766,041</u>

MGIC Surety Corporation
Reconciliation and Analysis of Surplus
For the One-Year Period Ending December 31, 1997

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1997
Surplus, beginning of year	\$ 0
Net income	188,970
Net unrealized capital gains or (losses)	(1,027,466)
Capital changes:	
Paid-in	2,000,000
Surplus changes:	
Paid-in	<u>17,777,942</u>
Surplus, end of year	<u>\$18,939,446</u>

**MGIC Surety Corporation
Insurance Regulatory Information System
Exceptional Ratio Results
For the Five-Year Period Ending December 31, 1997**

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, for years in which the company had IRIS ratio results that were outside the usual range of values. The summary of IRIS ratio data is followed by discussion of the exceptional ratio results.

Ratio No. 5-Investment Yield

NAIC exceptional results are any values greater than or equal to 10% or less than or equal to 4.5%

	<u>Year</u>	<u>Ratio</u>
Company Results-	1997	2.2

Ratio No. 6-Change in Capital and Surplus

NAIC exceptional results are any values greater than or equal to 50% or less than or equal to -10%

	<u>Year</u>	<u>Ratio</u>
Company Results-	1997	999.0

The unusual result for ratio number 5, Investment Yield, in 1997 stems from the contribution to the company of 100% of the capital stock of MGIC Assurance Corporation as an element of the company's initial 1997 capitalization. Affiliated common stock comprises 79% of the company's total admitted assets, resulting in the unusually low investment yield.

The unusual result for ratio number 6, Change in Capital and Surplus, in 1997 was due to the capitalization of the company upon its 1997 incorporation. Capital contributions in 1997 equaled \$19,777,943, and the company's policyholder surplus increased from \$0 prior to incorporation to \$18,939,446 as of December 31, 1997.

Growth of MGIC Surety Corporation

As noted above, the company was initially incorporated and capitalize during 1997, and had policyholder surplus of \$18,939,446 as of December 31, 1997.

Reconciliation of Surplus per Examination

The examination did not make any adjustment to surplus or any reclassification of account balances reported by the company.

VII. SUMMARY OF EXAMINATION RESULTS

Summary of Current Examination Results

Management and Control

Review of the minutes of the company's board of directors meetings indicated that the board adequately monitors the results of company operations. Various executive management and decision-making functions are conducted by MGIC Investment Corporation on behalf of all the insurers in the MGIC Group, including the company. Executive functions performed by MGIC Investment Corporation for the company include functions performed by the parent corporation's committees for Securities Investment, Risk Management, Management Development, and Audit. Executive actions performed include management decisions regarding asset investment, policy underwriting, executive compensation, and the selection of independent auditors. The board of directors of the insurance company currently takes no action with regard to the executive decisions enacted by the parent company.

As provided in s. 611.51 (6), Wis. Stat., an insurer's board of directors shall manage the business and affairs of the company, and may not delegate its authority or responsibility to another entity. The company is not in compliance with statutory requirements that the company exercise its board of directors' management authority. It is recommended that the company's board of directors review executive decisions made on behalf of the company by the parent corporation, and that the board exercise its responsibility to manage the company by taking action on those decisions, by resolution of the company's board of directors.

Compulsory and Security Surplus Calculation

The company incorrectly calculated its compulsory and security surplus as of December 31, 1997, having failed to deduct the minimum capital requirements attributable to its insurance subsidiary (the compulsory surplus of MAC and the minimum policyholder position of the MAC segregated account) from Surety's assets in computing the company's compulsory surplus. It is recommended that the company correctly compute its compulsory and security surplus, in conformity with the required calculation method.

VIII. CONCLUSION

MGIC Surety Corporation (Surety) was organized under the laws of Wisconsin on April 30, 1997, and commenced business on May 21, 1997. The company is licensed solely in the state of Wisconsin. As of December 31, 1997, Surety had not undertaken any liability for insurance risks, and did not have any insurance in force.

Surety is a wholly owned subsidiary of Mortgage Guaranty Insurance Corporation (MGIC). The company's initial 1997 capitalization included 100% of the common capital stock of MGIC Assurance Corporation.

The examination made two recommendations, pertaining to the board of director's management and control and the company's calculation of compulsory and security. The examination determined that as of December 31, 1997, the company had assets of \$18,943,446 and liabilities of \$4,000. The examination did not make any reclassification of balances or adjustment to surplus. As of December 31, 1997, total surplus was \$18,939,446.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - Management and Control—It is recommended that the company's board of directors review executive decisions made on behalf of the company by the parent corporation, and that the board exercise its responsibility to manage the company by taking action on those decisions, by resolution of the company's board of directors.
2. Page 27 - Compulsory and Security Surplus Calculation—It is recommended that the company correctly compute its compulsory and security surplus, in conformity with the required calculation method.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Kris DeArmond	Insurance Examiner
Andrew Fell	Insurance Examiner
Teri McClintock	Insurance Examiner

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge

MGIC Surety Corporation.doc